

Interview



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Q1: FBR Policy Board has decided to make a Tax Policy Unit at Ministry of Finance; PIDE has been vouching for a tax policy for growth; what contours or principles you suggest for Tax Policy in Pakistan.

Tax policy board met in February, and it is decided that dedicated people will be invited for tax policy. Actually, tax collectors are the policy makers and they don't get an opportunity to focus on tax policy alone. That is why a dedicated unit is in the making. It will have fiscal economists, chartered accountants, lawyers and finance graduates. They will analyze tax policy from all aspects and will frame their recommendations. And then as per the process, in the light of these recommendations, the board, different government bodies like ECC and the cabinet meet specially during budget and decisions are made regarding the approval of different tax proposals. The work is in progress. Now what are the principles of tax policy? The basic principle of the tax policy or the centre point of the tax policy should be to ensure that ease is created for the tax payers who are liable to pay taxes so that the tax payers can voluntarily pay taxes. Then tax policy is also used for nudge, though we are not encouraging it, but it is used to create incentives. In important socio economic areas where development is required, the tax policy is used to provide different incentives to attract investments. The unit will analyze all these recommendations. The objective of the corporate income tax reforms introduced under the imf program is to focus on various tax exemptions which can be wither in the form of complete exemptions or concessions in the form of low tax rates. These are not conducive to our tax regime. A huge amount of revenue is wasted because of these which is called tax expenditures. In the last report the tax expenditures or tax costs are estimated to be around 1.1 trillion rs. We have provided every possible different tax exemptions and concessions. We ensured imf that this will be done in this program. We have implemented first part of it. In the next budget decisions related to personal income tax and sales tax will be made. The removal of these concessions will improve the tax regime and tax revenue will increase. As stated earlier, we have to decrease tax expenditure and should not use tax as an incentive as it creates distortion. This is the basic principle behind these reforms.

Q2: PIDE identifies in its Research Report "Growth Inclusive Tax Policy; A Reforms Proposal" that 35 out of 85 withholding tax lines yield insignificant revenue so must be abolished to achieve simplification and reduction in compliance cost to private businesses. How can the existing withholding regime be improved?

This is very pertinent question that we have. A very large number of WH taxes. I want to emphasize that even in the last budget saw a dozen of WH tax withdrawn and we plan to continue this process in this budget also and some 15 to 25 WH taxes are on the block to be chopped. At the same time we have to realize that WH, other than revenue, is adjustable. If somebody is not taxable, or if there is no tax liability, there is to be a refund or it will be deducted from the liability. WH also provide a significant amount of information about tax payers. So what we are going to do is while we will eliminate WH taxes but we will retain the documentation requirement and reporting requirement.

Q3: Track and Trace System is again in a pause due to Stay in court. Is there significant revenue increase expected if such a system will be implemented. Also, what is the coverage of this system; would it cover all the registered sales tax payers.

See Track and Trace is a big ticket item. We had done all the work, we had bad luck previously. This time we had awarded the contract but somehow some people approached the court and obtained stay order. We are vigorously contesting in the court to have the stay reverted. And obviously we are ready to provide all the justifications for reaching the final outcome of the award process. In this track and trace we have four industries that we are covering i.e. tobacco, fertilizer, sugar and cement. These are the four sectors which are targeted in the first place but it has no bounds. The regime will move on as we gain experience from these four sectors. With this all these industries will also benefit. As the spurious productions marketed in the big brand name or illegally without paying taxes will all be checked.

Q4: In one of PIDE's study on "Tobacco Taxes in Pakistan" it was identified that the field formations due to lack of human resources often resort to overriding functions such as audits and revenue collection. Do you see it as a constraint and any road map to plug these deficiencies?

I'm not aware of any such thing as you have mentioned, the lack of human resources as far as tobacco taxes are concerned. You know there is a problem. The problem is of informal sector and we need enforcement as I told you about Track and Trace. We will be able to gain significant ground. Already we are tightening in general the smuggling regime in the country. Anti-smuggling measures have started giving significant, concrete results and we see the local industry coming and congratulating us and admitting that their demand is on the rise because the smuggled goods are not reaching. So we will continue to tighten and because of that even the informal cigarettes and tobacco movements will be checked.

Q5: Budget Strategy paper at Ministry of Finance must be in making. In your opinion what should be the FBR tax revenue collection target for the next fiscal year given economic growth shows visible signs of improvement. The unexpected growth in non-tax revenues and provincial surpluses led to fiscal account improvement last year, what about this year.

Well I don't think it is appropriate to discuss this specific target. This is still a work in progress and we will continue to make improvements in fiscal discipline so there will be fiscal adjustments but then we are passing through a phase in which the first two years are nearly spent in either the demand containment or fighting Covid. Now we are back on track you see 4 % growth has been achieved for this year and we will be targeting even higher next year and all of these things and the some of the features that I mentioned about tax policy will reveal that we will have very good size of the collection next year which should help us in further adjusting our fiscal deficit. You see as far as provincial surpluses are concerned we also don't want to depend on those things but if somehow the country needs fiscal adjustment, frankly, it is just not possible without requesting provinces to postpone consumption. I mean some people feel that surplus means that they have some profits and surplus and they will give it to us physically. NO, it only means that they don't spend that. It is their money, its in their accounts, and they will have time to spend in future so it is only postponement or delay in consumption. And we want to be realistic but we are under the IMF program and we will have to do fiscal adjustment and provinces have to come on board to support that thing.

Q6: Various forums have been proposing reforms for FBR and the overall tax policy. PIDE has been actively pursuing that agenda. What are the key features which will be addressed in the upcoming budget?

We are very closely engaged with many types of industries, businesses, chambers and in particular with Pakistan Business Council, the overseas investment chamber, American Business Council and some others and Federation of Pakistan Chambers of Commerce and Industry above all. And we have held two sets of session with them and many of their proposals are very very good and part of our own agenda so it goes without saying that we will be seeing or meeting each other's expectations. But there are others where we may have some difficulty. In particular, let me say that the key demands are the minimum turnover tax, some duty reductions in import regime and also the profit rates are felt to be still very high, they are around 29 %. So we will see how far we can go and meet these things but these are on the radar and actively under consideration.

I totally agree that we need a single national agency for tax collection because we see investors extremely pained and over extended in meeting regulatory requirements. If there is a nationwide business, it has to file 5 monthly sales returns, multiply by 12 makes it 60 and the compliance costs are huge and very significant and require man power and some expenditures also. So we are working on harmonization until the dream of single agency is materialized. Our current focus is to bring together all the four and five agencies on a single platform so the businesses don't have to file 5 different forms in 5 different portals. There could be a single portal. And we have some issues with the provinces in terms of the definitions of goods and services and origin and destination. We are feverishly working to resolve those. If those are resolves, then we will have harmonized system so in the absence of single agency, the harmonized system will be a great success in at least giving people ease of doing business **DOING TAXES BETTER: Shifting The Paradigm of Tax Policy and Administration**